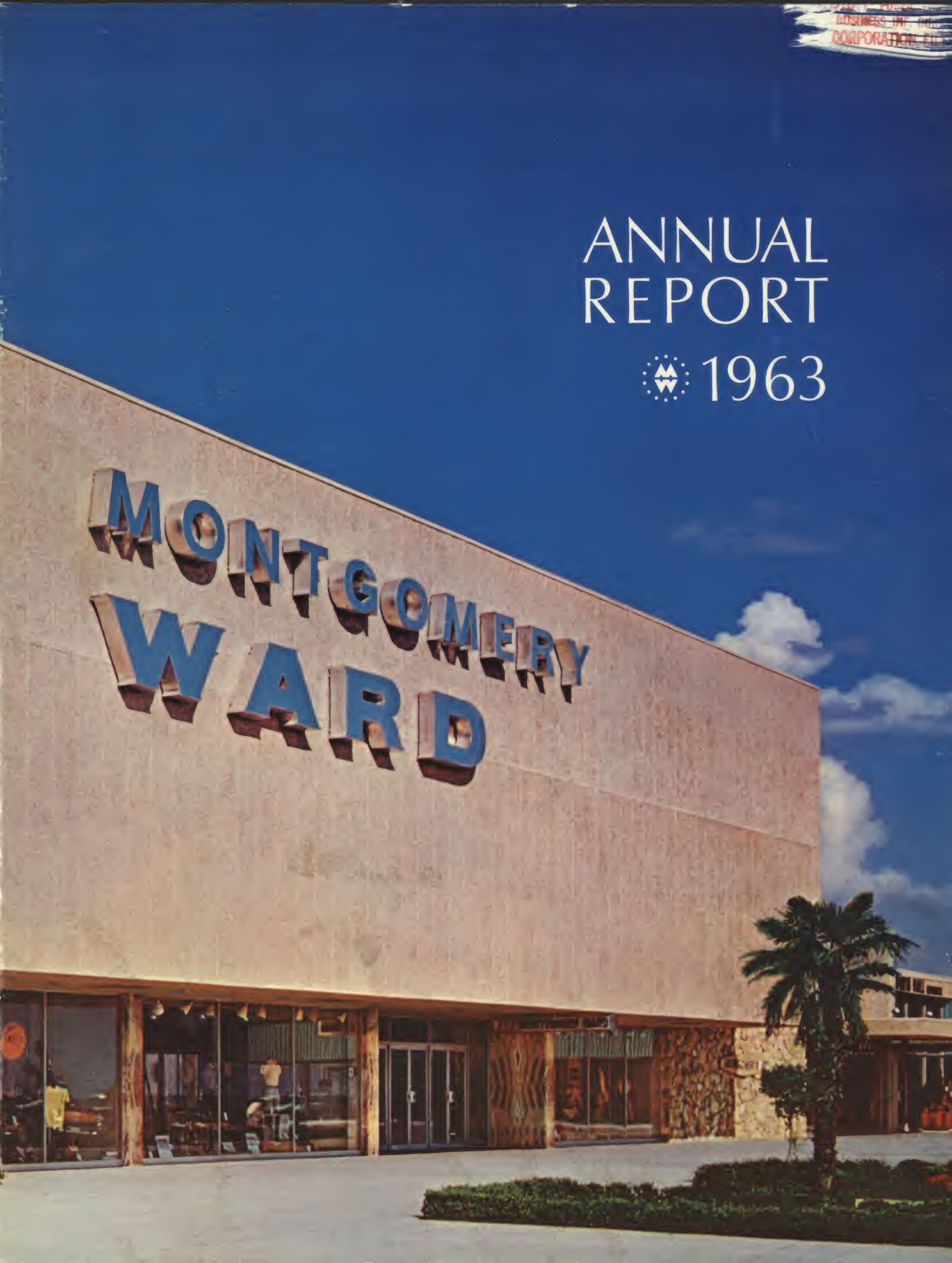
ANNUAL REPORT 1963



Customers can shop and buy easily and rapidly in Montgomery Ward stores where merchandise is openly displayed, attractively packaged, descriptively labelled and clearly identified as to brand, quality and price. After making their selections, they receive prompt personal service from conveniently located cashiers who record the sale and wrap the items purchased.

COVER PHOTO—Montgomery Ward retail store, Wonderland Shopping Center, San Antonio, Texas

TO OUR STOCKHOLDERS:

Sales for 1963 increased 5.3 per cent, exceeding $1\frac{1}{2}$ billion dollars to set a new record high for the Company.

Net profit remained at approximately the 1962 level as your management held to its purpose of strengthening its competitive position by accelerating its expansion and modernization program and by improving efficiency through changes in merchandising methods and operating procedures.

The reported net earnings for both 1963 and 1962 include the effect of the reduction in Federal Income Taxes because of the investment credit allowed on capital expenditures for fixtures and equipment. In 1963 this amounted to $2,255,000, including the effect of the new tax law, as compared with $482,000 for 1962 under the previous tax law.

Financial results for the 52-week period ended January 29, 1964, compared with the previous year, were:

	1963	1962
Net Sales	$1,500,111,708	$1,425,187,840
Net Earnings After Taxes	20,966,606	20,415,681
Earnings Per Common Share	1.57	1.51
Dividends Per Common Share	1.00	1.00

To remain competitive in downtown markets and to improve our merchandising services to the expanding populations of suburban areas, the Company is modernizing many of its old stores and is relocating others into new buildings with adequate parking facilities. During the year, 24 new stores were opened, 18 of which were relocations, and 37 old stores were rehabilitated.

While the expansion and modernization program will continue at a similar pace in 1964, the reorganization of our merchandising structure and systems to meet the new competitive challenges of the 1960's has been largely completed. Operations have been further decentralized through regional, district and zone offices to provide market management and development at the local level, while procurement and distribution activities continue to be centralized to achieve the benefits of mass buying and the economies of coordinated distribution.

The packaging and display of many lines of merchandise have been improved to encourage self-selection by customers, with prompt service provided by conveniently located cashier booths. This new system permits our stores to operate more efficiently and to better schedule the working hours of employees to meet the ever-increasing demand of customers for more evening openings.

The rate of change in the catalog division is no less rapid than in retail. Ninety-one new catalog stores were opened during the year, 42 of which were relocations of older stores. Many of our new catalog stores provide will-call service on a next-day basis to thousands of telephone customers. The traditional spring and fall catalogs are supplemented with sale books and circulars which compete directly with the seasonal and promotional offerings of department and discount stores.

The Company is continuing to develop its competitive position by providing, through modern facilities, quality merchandise with dependable services, including installation and repair service for all products sold, and a convenient Charg-All credit plan for both goods and services.

We wish to express our appreciation for the loyalty of the managers and the employees of the Company whose dedication and united effort are so essential to the Company's success.

Additional facts about the Company's operations and plans are presented on the following pages.

Respectfully submitted,

John A Barr   Robert E. Brooker

John A. Barr, Chairman   *Robert E. Brooker, President*

April 6, 1964

THE YEAR IN REVIEW

SALES–Our sales record of $1,500,111,708 for the 52-week fiscal year ended January 29, 1964 was a 5.3 per cent increase over last year's sales of $1,425,187,840.

Sales of both the retail and catalog divisions were higher.

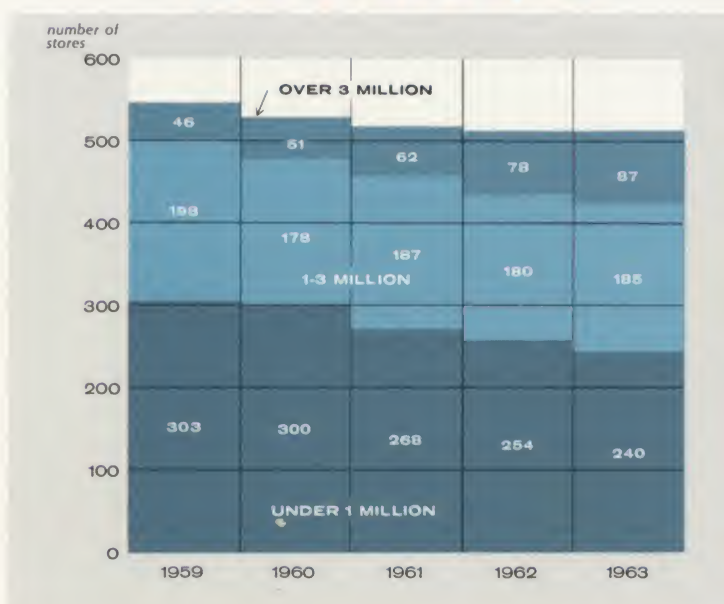
Sales of the retail stores which we have established in large metropolitan markets are continuing to grow and, in 18 principal metropolitan districts, now account for 49 per cent of total retail sales. This retail growth is a result of the expansion program initiated six years ago. Of the total of 92 new stores opened since 1958, 52 were large stores in these metropolitan areas.

The development of urban markets also has stimulated our catalog sales. Seventy-four per cent of Wards' catalog sales now are made to customers living in urban areas as compared to 63 per cent in 1958.

EARNINGS—Changes were made during the year in merchandising methods and in the operating structure to further strengthen the Company's competitive position. The direct and indirect expenses associated with these method changes and organizational moves were charged against current earnings for the year, although their purpose and effect is to maintain the momentum of our long-range program to build sales and strengthen profit in the future.

LEFT—Stockholders at the Montgomery Ward annual meeting hear reports of Company progress from John A. Barr, chairman (at rostrum), and Robert E. Brooker, president.

NUMBER OF
RETAIL STORES BY VOLUME



Total earnings for the year were $20,966,606, of which $13,879,732 were paid to stockholders as dividends. The remaining $7,086,874 were reinvested in the business.

CLASS A STOCK—During the year, 60,300 shares of Class A stock were repurchased by the Company at an average cost of $164.79 per share. This action reduced the number of Class A shares to 141,254, and will reduce the annual dividend payments on Class A stock by $422,100.

CAPITAL EXPENDITURES—Capital expenditures for the year were $74,093,240 as compared with $22,752,409 in 1962, and $30,537,015 in 1961. Major factors in this increase were the modernization of the Company's large retail stores attached to its mail order houses in Baltimore, St. Paul and Fort Worth, expansion of the mail order facilities in Chicago, modernization of the headquarters offices, and the increased rate of establishing new stores and rehabilitating old stores. Most of the remaining large stores attached to our mail order houses will be modernized this year and 1964 capital expenditures are being planned at approximately the 1963 level. Upon completion of these major projects, capital expenditures are expected to drop to a lower rate in subsequent years.

Depreciation charged in 1963 rose to $13,346,614 from $11,899,981 in 1962 and $10,375,067 in 1961.

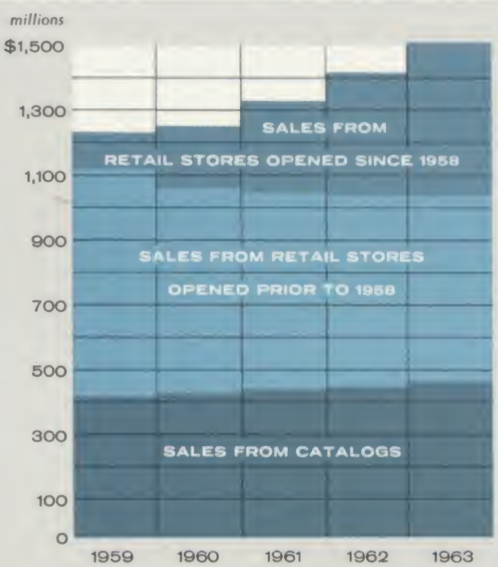
ACCOUNTS RECEIVABLE—Accounts receivable of the parent and its subsidiaries increased to $586,635,226 from $478,878,281 a year earlier. Forty-four per cent of the Company's sales were made on credit in 1963, compared to 42 per cent the year before.

The Company is adopting the installment method of accounting for Federal income tax purposes for 1963 and future years. Under this method of accounting, payment of income taxes on the gross income from installment sales is deferred until the accounts are collected. Although this accounting treatment does not directly affect reported earnings, it will strengthen the Company's cash position and reduce the need for short term financing.

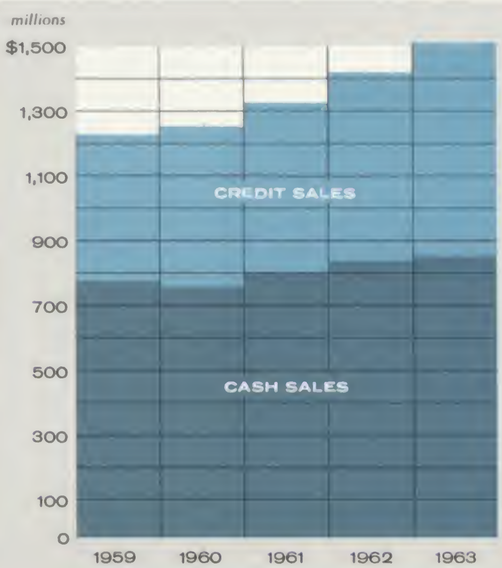
INVENTORY—Investment in inventory was $328,564,429 at year end, an increase of $42,843,597 over the year before. This increase was required for the new stores opened during the year and to sustain the higher level of sales being attained during the first quarter of 1964. Inventory turnover improved moderately for the year but does not fully reflect the benefit to be derived from the merchandising and distribution changes that are being made.

NEW STORES AND RELOCATIONS—To keep pace with the Company's five year objectives of relocating about 100 old stores while establishing additional stores in metropolitan areas, the 1963 rate of expansion will be continued. During the year, eighteen new stores were completed as relocations from old buildings in undesirable sites. Four new stores were opened in metropolitan areas where we already were operating stores—two in the Washington, D.C. area and one each in the Baltimore and Jacksonville, Florida areas. A new store was

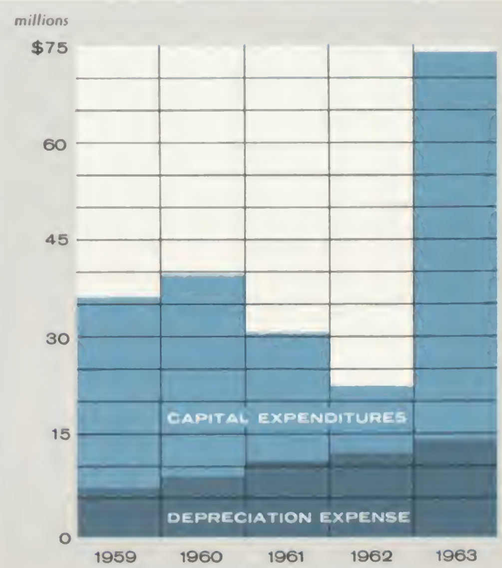
TOTAL SALES
RETAIL STORES–CATALOGS



TOTAL SALES
CASH AND CREDIT



CAPITAL EXPENDITURES
(including subsidiaries)



established in a new market area in Melbourne, Florida. The home furnishing and hard-line store at St. Anthony Village, Minneapolis, was expanded into a large full-line store.

Present plans for 1964 provide for the relocation of 20 stores and the establishment of four stores in metropolitan market areas where we already are represented.

All new stores now are being engineered to prototype standards adopted in 1962 for eight size categories. This program has made it possible to accelerate our expansion and modernization program at a progressively lower cost per square foot for engineering and for installation of display equipment.

REHABILITATIONS–Concurrent with the new store construction program, an additional program was launched during the year to rehabilitate those old stores which are in good competitive locations. Thirty-seven of these stores were brought up to competitive merchandising standards with new display window fronts, new flooring, new fixtures, new lighting and, in many instances, new display equipment and air conditioning. Approximately 60 additional stores are scheduled for major rehabilitation work in 1964.

ENTRY INTO CHICAGO MARKET–An important development of 1963 was the decision to establish a group of Montgomery Ward retail stores in Chicago where the Company never had more than token retail store representation. The first move was to convert the four suburban stores and the principal downtown store of The Fair, purchased in 1957, into Montgomery Ward stores. One of these was converted in November and the others are being converted during the current year. In addition to these five stores and eight other Ward retail stores now operating in the Chicago metropolitan area, the Company is planning to build a number of additional retail stores to complete its coverage of this important market.

A five-year program to increase the Company's representation in the Los Angeles market at the approximate rate of two new stores each year was announced in February. Seven retail and five catalog stores now are serving customers in this area.

The old and the new look of Montgomery Ward stores is vividly portrayed by these photographs of the Company's largest store, located in St. Paul, Minn. In addition to the 37 old stores that were rehabilitated in 1963, approximately 60 more are scheduled for extensive modernization in 1964.

MERCHANDISING PROGRAMS–During the past two years, many policies, procedures and methods have been changed to increase the efficiency and the competitiveness of our operations as a mass distributor of one of the largest assortments of products and services offered by any retailer.

The Company's centralized buying staffs in Chicago, New York and Los Angeles are continuing to consolidate purchases with fewer suppliers, to expand the use of our own brand merchandise manufactured to Wards' specifications, and to improve contractual arrangements with sources. These moves will result in more efficient production schedules, improved quality control, and substantial distribution economies through reduction of warehousing and transportation costs.

New standards of visual packaging and informative labeling have been adopted as part of our over-all program of facilitating the self-selection of many items of merchandise by customers. Display fixtures and interior layouts of stores also have been improved to assist customers who prefer self-service. Centralized cashier booths have been installed in most of the stores to improve efficiency and to expedite service for customers.

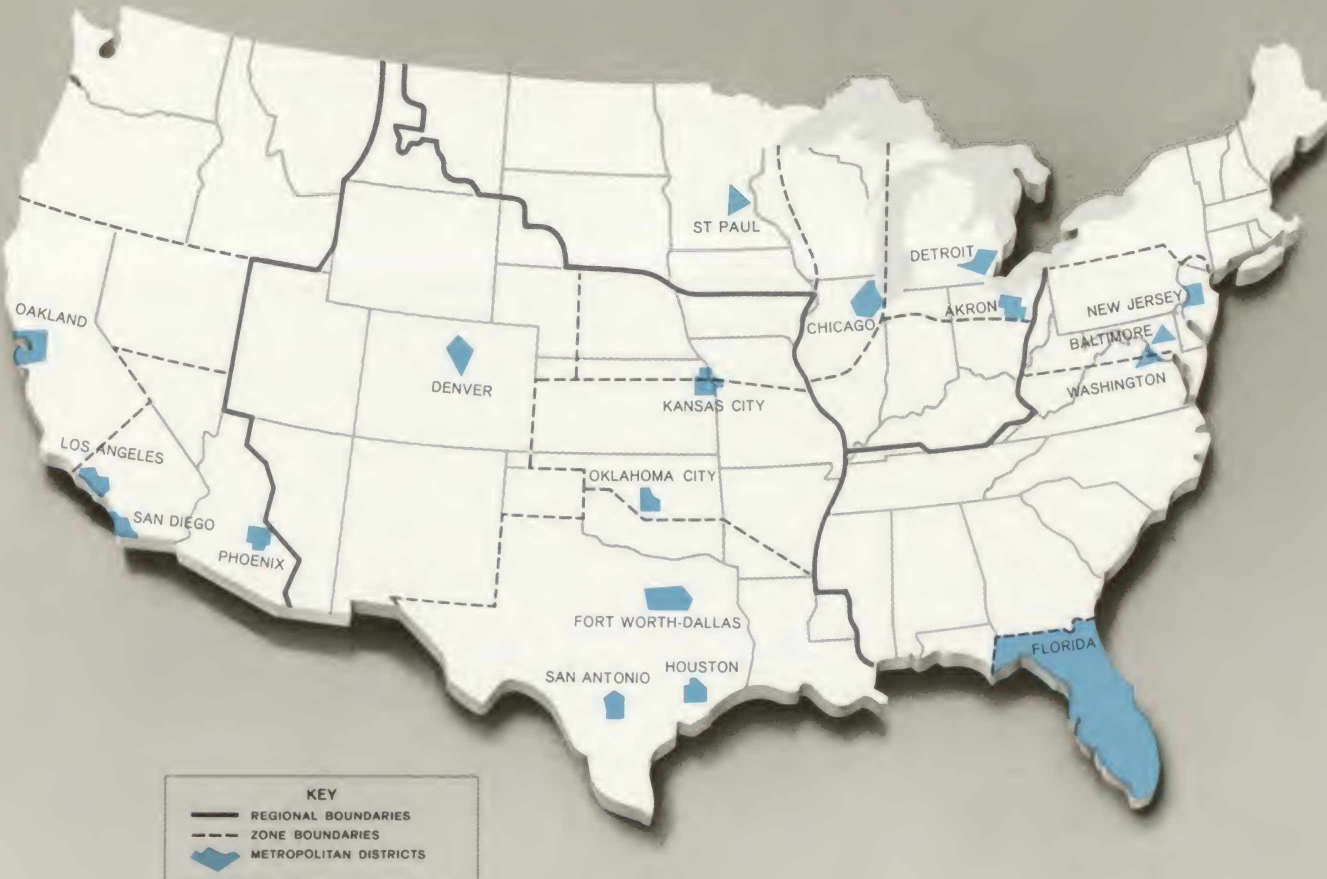
CUSTOMER SERVICES–The Company's simplified Charg-All credit service was extended during the year to both retail and catalog customers in the geographic areas served by our mail order houses in Chicago, Baltimore and Oakland. Two-thirds of all Ward customers buying merchandise on credit now are using this simplified credit procedure which substitutes one plan for all merchandise purchases instead of the several different plans for varying periods of payments previously used.

Customers in all remaining areas of the country will be offered the many advantages of this new Charg-All credit service during 1964.

Tire and auto service facilities continue to be expanded to meet the increasing demand for "satisfaction guaranteed" service by the nation's 65 million auto owners. The Company now operates 2,162 service stalls in its auto service centers throughout the country, compared to 1,153 five years ago.

For the burgeoning teenage population of young junior misses, Montgomery Ward has developed and inaugurated the first national self-improvement charm course ever offered this age group. Personalized instruction is currently being provided by specially-trained instructors to thousands of young girls through the new Wendy Ward charm schools in 81 retail store locations. This guidance and counselling service is also being offered through our current general catalog with a phonograph record album and an illustrated booklet.

LEFT–A new friend and counsellor of teenage girls–Wendy Ward–has launched her career with personally supervised charm centers in retail stores and a 20-lesson self-teaching charm course available through Wards' catalogs. The Wendy Ward program is the first teenage self-improvement course ever offered nationally by a retail chain.



ABOVE–Montgomery Ward has increased its emphasis upon catalog and retail operations in urban markets by assigning merchandising staffs to 18 metropolitan district organizations. Other areas of the country are managed through 13 zones.

REALIGNMENT OF DISTRICTS–The increasing importance of retail and catalog operations in metropolitan areas has been recognized in a significant realignment of supervisory responsibilities of our district managers. The operations of 82 retail stores and 47 catalog stores in metropolitan markets have been assigned to 18 metropolitan district managers. All other retail stores have been regrouped into 13 new geographic zones, a decrease of 10 from a year ago, under the supervision of enlarged zone staffs.

These moves are another step in carrying forward the Company's basic philosophy of decentralization of operations, providing the manager of each district with the local flexibility and authority needed to develop his own strategy and tactics for increasing the Company's competitive position in his particular geographic marketing area.

CATALOG STORES–Forty-nine new catalog stores were opened during 1963 and 42 additional ones were relocated with modern facilities and adequate parking.

New catalog stores conform to the prototype designs and merchandise display standards established early in 1963.

At the end of the fiscal year, 737 catalog stores were in operation as compared with 691 last year. These stores are increasing their volume of sales through more intensive use of telephone solicitation and the addition of outside selling personnel for major appliances, plumbing, heating and home improvement installations.

In some locations, new catalog stores are being constructed with tire, battery and auto service facilities as an additional convenience for customers.

CATALOG SALES–Sales of merchandise through the 45,000,000 seasonal and special catalogs distributed in 1963 totaled $459,289,715. This record volume of sales is evidence of the vitality of this historic segment of our business.

Catalog selling has undergone many changes in the 92 years since it was introduced by Aaron Montgomery Ward in 1872, and its future prospects are most en-

couraging. As the mail order catalog was a godsend for rural folk before they were able to drive automobiles to the city on paved highways, so it now is proving of great benefit to the young families of suburbia and the growing number of older people who find telephone shopping from a catalog an economical and convenient method of making their purchases.

In many metropolitan areas, Wards is offering same-day pick-up service for merchandise ordered by phone before noon. In several hundred communities, customers now are getting next-day delivery service as the use of teletype is being extended to transmit orders to the nearest mail order house.

EMPLOYEE BENEFITS–A new long-term agreement, extending to 1967, was negotiated with the Teamsters and Retail Clerks unions, which represent most of those employees who are unionized.

On June 1, 1963, each employee's cost of participating in the Company's retirement plan was reduced 50 per cent. The Company is fully funding current service liability through contributions and earnings of the Pension Trust, but it is not the Company's present intention to further reduce the present level of unfunded past-service liability.

A new employees' savings plan was adopted June 1, 1963. Under this plan, employees may deposit three per cent of their annual pay and the Company, depending upon its annual earnings, will contribute an amount equal to 25 to 50 per cent of the employee's deposits. The Company's contribution to this new plan last year was $883,441, equivalent to 31 per cent of employee deposits.

Major improvements were made during 1963 in the Company's contributory group insurance plan at no additional cost to employees.

The improvement of the Company's retirement, hospitalization and insurance programs, along with the stock option plan and the adoption of an employee savings plan, are providing additional inducements for employees to plan their full careers with Montgomery Ward. These incentives and provisions for security, combined with opportunities for job promotions as the Company continues to expand, have created a new interest in Montgomery Ward as a progressive employer, and will further the development of a strong corps of key employees interested in the progress and profitability of the Company.

ABOVE LEFT–More than 20,000 service award pins were presented to veteran employees during 1963, 2,830 of whom were honored for service of 25 years or more.

LEFT–In 1964, for the first time, all catalog customer records will be maintained by mechanical record-keeping equipment and each mail order house will distribute its catalogs on a selective basis from the new individualized records.

CONSOLIDATED STATEMENTS OF EARNINGS AND EARNINGS REINVESTED

for the 52-week periods ended January 29, 1964 and January 30, 1963

Earnings

	1964	1963
NET SALES	$1,500,111,708	$1,425,187,840
COSTS AND EXPENSES:		
Cost of merchandise sold, including net buying, operating, selling and administrative expenses other than itemized herein	$1,391,879,555	$1,319,804,654
Rents	25,724,179	23,755,962
Maintenance and repairs	6,175,665	5,476,059
Depreciation and amortization	12,568,809	11,147,015
Contribution to employees' savings and retirement plans	4,088,000	3,905,099
Property, social security and state taxes	28,083,144	27,280,145
Provision for Federal taxes on income	13,860,000	16,990,000
Total costs and expenses	$1,482,379,352	$1,408,358,934
NET EARNINGS FROM OPERATIONS	$ 17,732,356	$ 16,828,906
NET EARNINGS OF SUBSIDIARIES NOT CONSOLIDATED	3,234,250	3,586,775
NET EARNINGS	$ 20,966,606	$ 20,415,681

Earnings Reinvested

	1964	1963
BALANCE AT BEGINNING OF YEAR	$ 423,766,013	$ 417,346,962
NET EARNINGS	20,966,606	20,415,681
Total	$ 444,732,619	$ 437,762,643
CASH DIVIDENDS:		
Class A stock —$7.00 per share	$ 1,312,791	$ 1,410,878
Common stock—$1.00 per share	12,566,941	12,585,752
EXCESS OF COST OVER STATED VALUE OF CLASS A SHARES REACQUIRED	3,906,750	—
Total	$ 17,786,482	$ 13,996,630
BALANCE AT END OF YEAR	$ 426,946,137	$ 423,766,013

Explanatory notes to these financial statements appear on page 13.

CONSOLIDATED BALANCE SHEET

as of January 29, 1964 and January 30, 1963

Assets

	1964	1963
CURRENT ASSETS:		
Cash	$ 26,344,657	$ 24,429,768
Time deposits maturing in less than six months	23,500,000	42,007,333
Marketable securities, at cost	47,783,742	132,347,222
Receivables, including equity in accounts sold, less reserves for doubtful accounts and unearned carrying charge income	89,336,386	63,996,717
Merchandise inventories, at the lower of cost or market	328,564,429	285,720,832
Prepaid catalog costs, supplies, etc.	31,331,852	28,715,949
Total current assets	$546,861,066	$577,217,821
NET EQUITY IN, AND ADVANCES TO, SUBSIDIARIES NOT CONSOLIDATED	69,787,162	60,742,878
PROPERTIES AND EQUIPMENT, at cost less reserves for depreciation	178,889,493	128,830,668
	$795,537,721	$766,791,367

Liabilities

	1964	1963
CURRENT LIABILITIES:		
Accounts payable and other liabilities	$ 93,534,375	$ 67,273,617
Accrued expenses	48,273,072	41,701,879
Federal taxes on income	5,762,292	9,399,261
Total current liabilities	$147,569,739	$118,374,757
DEFERRED FEDERAL TAXES ON INCOME	$ 10,032,000	$ 7,737,000
CAPITAL STOCK AND EARNINGS REINVESTED:		
Class A stock, no par value—Authorized 205,000 shares non-callable, $7.00 per share cumulative dividends; issued 201,554 shares less 60,300 shares in treasury in 1964 stated at liquidating value	$ 14,125,400	$ 20,155,400
Common stock, no par value—Authorized 20,000,000 shares; issued 13,004,756 shares, at stated value	211,231,385	211,231,385
Earnings reinvested in the business	426,946,137	423,766,013
	$652,302,922	$655,152,798
Less—Treasury common stock, 435,604 shares in 1964 and 438,985 shares in 1963, at cost	14,366,940	14,473,188
Total capital stock and earnings reinvested	$637,935,982	$640,679,610
	$795,537,721	$766,791,367

MONTGOMERY WARD CREDIT CORPORATION

BALANCE SHEET

as of January 29, 1964 and January 30, 1963

Assets

	1964	1963
CURRENT ASSETS:		
Customers' deferred payment accounts purchased without recourse from Montgomery Ward & Co., Incorporated	$572,861,801	$460,839,114
Less portion of purchase price withheld pending collection (including allowance for estimated uncollectible accounts of $5,715,332 in 1964 and $4,595,755 in 1963)	57,153,317	45,957,550
	$515,708,484	$414,881,564
Cash	1,260,192	1,021,724
Receivable from Montgomery Ward & Co., Incorporated	—	15,486,914
Prepaid interest on notes payable	1,138,328	308,900
Total current assets	$518,107,004	$431,699,102
DEBENTURE DISCOUNT AND EXPENSE, after amortization	1,347,481	1,428,111
OTHER ASSETS	32,770	29,094
	$519,487,255	$433,156,307

Liabilities

	1964	1963
CURRENT LIABILITIES:		
Notes payable	$329,050,000	$258,976,500
Payable to Montgomery Ward & Co., Incorporated	18,122,043	—
Accrued interest and other liabilities	1,544,166	1,528,405
Federal taxes on income	1,957,458	2,198,217
Total current liabilities	$350,673,667	$262,703,122
LONG TERM DEBT:		
$4\frac{7}{8}$% Debentures, due July 1, 1980	$ 50,000,000	$ 50,000,000
$4\frac{3}{4}$% Debentures, due February 1, 1981	25,000,000	25,000,000
$5\frac{1}{4}$% Subordinated Debentures, due February 1, 1981	25,000,000	25,000,000
Total long term debt	$100,000,000	$100,000,000
UNEARNED DISCOUNT ON DEFERRED PAYMENT ACCOUNTS	$ 7,827,770	$ 12,344,913
INVESTMENT OF MONTGOMERY WARD & CO., INCORPORATED:		
Common stock, $100 par value— Authorized 500,000 shares; issued and outstanding 250,000 shares	$ 25,000,000	$ 25,000,000
Capital in excess of par value	25,000,000	25,000,000

Earnings reinvested in the business:	1964	1963		
Balance at beginning of year	$8,108,272	$4,906,552		
Net earnings	2,877,546	3,201,720	10,985,818	8,108,272
Total investment of Montgomery Ward & Co., Incorporated			$ 60,985,818	$ 58,108,272
			$519,487,255	$433,156,307

Explanatory notes to these financial statements appear on page 13.

M-W PROPERTIES CORPORATION

BALANCE SHEET

as of January 29, 1964 and January 30, 1963

Assets

	1964	1963
CURRENT ASSETS:		
Cash	$ 21,589	$ 39,935
Marketable securities, at cost	—	1,050,095
Accounts receivable	32,710	—
Receivable from Montgomery Ward & Co., Incorporated	237,460	237,939
Prepaid interest and taxes	11,693	9,231
Total current assets	$ 303,452	$ 1,337,200
PROPERTIES at cost: *(Leased to Montgomery Ward & Co., Incorporated)*		
Land	$ 2,327,504	$ 2,329,441
Buildings, less reserves for depreciation of $3,461,784 in 1964 and $2,983,800 in 1963	17,911,108	16,451,762
Total properties	$20,238,612	$18,781,203
FINANCING EXPENSE, after amortization	$ 67,121	$ 73,918
	$20,609,185	$20,192,321

Liabilities

			1964	1963
CURRENT LIABILITIES:				
Principal payments of 5¼% secured notes due within one year			$ 317,000	$ 302,000
Notes payable to Montgomery Ward & Co., Incorporated			320,311	—
Total current liabilities			$ 637,311	$ 302,000
DEFERRED FEDERAL TAXES ON INCOME			$ 412,200	$ 205,200
5¼% SECURED NOTES, due serially to February 1, 1991, less principal payments due within one year			$17,922,000	$18,239,000
INVESTMENT OF MONTGOMERY WARD & CO., INCORPORATED:				
Common stock, $100 par value—Authorized 25,000 shares; issued and outstanding 12,541 shares			$ 1,254,100	$ 1,254,100
Earnings reinvested in the business:	1964	1963		
Balance at beginning of year	$192,021	$ 21,998		
Net earnings	191,553	170,023	383,574	192,021
Total investment of Montgomery Ward & Co., Incorporated			$ 1,637,674	$ 1,446,121
			$20,609,185	$20,192,321

MONTGOMERY WARD REALTY CORPORATION

BALANCE SHEET

as of January 29, 1964 and January 30, 1963

Assets

	1964	1963
CURRENT ASSETS:		
Cash	$ 42,537	$ 10,601
Receivable from Montgomery Ward & Co., Incorporated	718,692	—
Total current assets	$ 761,229	$ 10,601
PROPERTIES at cost: *(Leased to Montgomery Ward & Co., Incorporated)*		
Land	$ 3,549,527	$ 2,270,955
Buildings, less reserves for depreciation of $2,134,278 in 1964 and $1,915,528 in 1963	11,246,203	6,971,869
Leasehold improvements, after amortization	2,824,183	2,899,311
Total properties	$17,619,913	$12,142,135
FINANCING EXPENSE, after amortization	$ 99,047	$ —
	$18,480,189	$12,152,736

Liabilities

	1964	1963
CURRENT LIABILITIES:		
Principal payments of 4¾% secured notes due within one year	$ 170,000	$ —
Notes and accounts payable to Montgomery Ward & Co., Incorporated	—	10,780,251
Accrued expense	91,913	—
Federal taxes on income	59,606	24,000
Total current liabilities	$ 321,519	$10,804,251
DEFERRED FEDERAL TAXES ON INCOME	$ 265,000	$ 160,000
LONG TERM DEBT:		
4¾% Secured notes, due serially to January 15, 1994, less principal payments due within one year	$10,730,000	$ —
4½% Subordinated note, due January 6, 1974, payable to Montgomery Ward & Co., Incorporated	5,810,034	—
Total long term debt	$16,540,034	$ —
INVESTMENT OF MONTGOMERY WARD & CO., INCORPORATED:		
Common stock, $100 par value— Authorized 25,000 shares; issued and outstanding 9,713 shares	$ 971,300	$ 971,300
Earnings reinvested in the business:		
Balance at beginning of year (1964: $217,185; 1963: $ 2,153)		
Net earnings (1964: 165,151; 1963: 215,032)	382,336	217,185
Total investment of Montgomery Ward & Co., Incorporated	$ 1,353,636	$ 1,188,485
	$18,480,189	$12,152,736

AUDITORS' OPINION

To the Stockholders and Board of Directors, Montgomery Ward & Co., Incorporated:

We have examined the consolidated balance sheet of Montgomery Ward & Co., Incorporated (an Illinois corporation) and subsidiaries as of January 29, 1964, and the related consolidated statements of earnings and earnings reinvested for the 52-week period then ended. We have also examined the balance sheets of Montgomery Ward Credit Corporation, Montgomery Ward Realty Corporation, and M-W Properties Corporation (all Delaware corporations) as of January 29, 1964. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements referred to above present fairly the financial position of the companies as of January 29, 1964, and the consolidated results of their operations for the 52-week period then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding 52-week period.

Chicago, Illinois, March 11, 1964

Arthur Andersen & Co.

NOTES TO FINANCIAL STATEMENTS

RECEIVABLES	January 29 1964	January 30 1963
Total Receivables (Principally customer installment accounts)	$618,596,612	$493,754,122
Less-Reserves for doubtful accounts and unearned carrying charges	13,551,742	14,875,841
	$605,044,870	$478,878,281
Less-Accounts sold to credit subsidiary (net of amount withheld pending collection)	515,708,484	414,881,564
	$ 89,336,386	$ 63,996,717

PROPERTIES AND EQUIPMENT	January 29 1964	January 30 1963
Land	$ 20,731,969	$ 14,997,082
Buildings	$105,050,140	$ 81,004,292
Fixtures and Equipment	120,470,194	96,052,682
	$225,520,334	$177,056,974
Less-Reserves for depreciation	80,158,731	73,541,913
	$145,361,603	$103,515,061
Leasehold improvements, after amortization	$ 12,795,921	$ 10,318,525
Properties and Equipment-Net	$178,889,493	$128,830,668

PRINCIPLES of CONSOLIDATION–The consolidated statements include all subsidiaries except Montgomery Ward Credit Corporation, M-W Properties Corporation, and Montgomery Ward Realty Corporation, wholly owned subsidiaries for which separate balance sheets are presented in this report. The net equity of subsidiaries not consolidated is stated in the consolidated balance sheet at the amount of the Company's investments in such subsidiaries plus accumulated earnings in the net amount of $11,751,728 as of January 29, 1964, which amount is included in Earnings Reinvested.

RETIREMENT AND SAVINGS PLANS–Under the Retirement Plan, established by the Company and its subsidiaries, there was an estimated unfunded past-service liability of $25,000,000 as of January 29, 1964. Provision was made during the fifty-two week period ended January 29, 1964 for interest on past-service liability and full funding of current-service liability.

During the fiscal year the Company contributed $883,441 to the Employee Savings Plan which became effective June 1, 1963.

EMPLOYEES' STOCK OPTIONS–Under the Company's stock option plan 589,010 shares of authorized but unissued common stock were reserved on January 29, 1964 for issuance to officers and key employees. Reacquired common stock may be issued in lieu of authorized but unissued stock. On January 29, 1964, options for a total of 437,885 shares were held by 201 individuals, and options for 174,265 shares were exercisable. The option prices ranged from $26\frac{7}{8}$ to $47\frac{7}{8}$ per share as fixed by the closing price of the stock on the New York Stock Exchange on the dates granted. All options are for a period of ten years and are exercisable in cumulative annual installments commencing one year from date of grants. Options granted prior to May 11, 1962 are exercisable ten per cent per year and options granted on and after May 11, 1962 are exercisable twenty per cent per year. During the 1963 fiscal year, options for 1,475 shares were exercised.

LEASE OBLIGATIONS–The Company had 781 leases in effect as of January 29, 1964 having terms of more than three years after that date. These leases provided for present aggregate minimum annual rentals of approximately $21,719,000 (of which $2,892,000 is payable to M-W Properties Corporation and Montgomery Ward Realty Corporation) plus, in certain instances, real estate taxes and other expenses. Additional amounts based upon percentage of sales may become due on 20 per cent of these leases. The Company has no obligation under any of these leases beyond the year 1995 except for ground leases of two stores which extend through the years 2020 and 2029.

CREDIT CORPORATION–Under the Indentures relating to the $4\frac{7}{8}$% and $4\frac{3}{4}$% Debentures, the Credit Corporation may not declare dividends on, or acquire any of its common stock if, after giving effect to such transactions, current assets as defined in the Indentures are not at least equal to 120 per cent of total liabilities as defined in the Indentures. As of January 29, 1964, the Credit Corporation's earnings reinvested in the business were restricted under these provisions.

On March 9, 1964, Montgomery Ward & Co., Incorporated made an additional capital contribution of $25,000,000 which was added to capital in excess of par value.

FIVE-YEAR STATISTICAL SUMMARY

for fiscal years ended

OPERATIONS

Net Sales
Net Earnings
Dividends
Earnings Reinvested or *(in italics)* Paid Out to Stockholders
    from earnings of previous years
Additions to Properties and Equipment:
    Parent and Consolidated subsidiaries
    Nonconsolidated subsidiaries
Depreciation and Amortization:
    Parent and Consolidated subsidiaries
    Nonconsolidated subsidiaries

Number of Retail Stores
Number of Catalog Stores
Average Number of Employees

FINANCIAL POSITION

Working Capital *(after intercompany adjustments):*
    Parent and Consolidated subsidiaries
    Nonconsolidated subsidiaries
Accounts Receivable *(after intercompany adjustments):*
    Parent and Consolidated subsidiaries
    Nonconsolidated subsidiaries
Inventories
Net Investment in Properties and Equipment:
    Parent and Consolidated subsidiaries
    Nonconsolidated subsidiaries
Long Term Debt, Nonconsolidated subsidiaries *(after intercompany adjustments):*

STOCKHOLDERS' INTEREST

Capital Stock and Earnings Reinvested
Investment per Common Share *(book value of shares outstanding*
    at end of year)
Earnings per Common Share *(on average number of shares outstanding*
    during the year)
Dividends per Common Share
Shares Outstanding:
    Class A
    Common

Number of Stockholders

January 29, 1964	*January 30,* 1963	*January 31,* 1962	*February 1,* 1961	*February 3,* 1960
$1,500,111,708	$1,425,187,840	$1,325,941,281	$1,248,993,866	$1,222,596,263
20,966,606	20,415,681	15,859,096	15,053,599	30,656,537
13,879,732	13,996,630	14,182,249	20,619,205	27,010,180
7,086,874	6,419,051	1,676,847	*(5,565,606)*	3,646,357
72,169,514	21,335,348	23,632,379	22,339,716	36,073,835
1,923,726	1,417,061	6,904,636	17,406,390	—
12,568,809	11,147,015	9,852,659	8,317,153	6,429,527
777,805	752,966	522,408	218,536	—
512	512	517	529	547
737	691	676	627	568
82,890	77,123	72,106	67,258	63,153
$ 381,805,125	$ 463,787,666	$ 449,767,743	$ 469,648,372	$ 541,005,545
185,025,390	154,292,928	163,088,589	112,812,358	—
70,894,032	63,996,717	194,780,691	238,845,291	356,590,631
515,741,194	414,881,564	240,374,252	167,415,758	—
328,564,429	285,720,832	296,174,404	266,784,895	260,218,266
178,889,493	128,830,668	121,861,235	111,741,337	104,691,071
37,867,956	30,934,129	30,754,648	21,755,732	—
128,652,000	118,239,000	118,541,000	68,829,000	—
$ 637,935,982	$ 640,679,610	$ 635,438,336	$ 640,218,052	$ 645,696,616
49.63	49.38	48.80	48.42	48.85
1.57	1.51	1.13	1.07	2.28
1.00	1.00	1.00	1.50	2.00
141,254	201,554	201,554	201,554	201,554
12,569,152	12,565,771	12,608,396	12,805,696	12,803,406
96,776	104,580	108,194	107,609	106,006

OFFICERS

John A. Barr
Chairman

Robert E. Brooker
President

Russell P. Bygel
Vice President

Edward S. Donnell
Vice President

Harold F. Dysart
Vice President and Controller

John D. Foster
Vice President

Frederic E. Giersch
Vice President

Charles J. Kushell, Jr.
Vice President

Sidney A. McKnight
Vice President

Charles W. Wood
Vice President

Andrew Lamb
Treasurer

Charles J. Barnhill
Secretary

John M. Clark
Assistant Treasurer

Harold W. Bancroft
Assistant Secretary

DIRECTORS*

John A. Barr
Chairman, Montgomery Ward, 1950

Robert E. Brooker
President, Montgomery Ward, 1962

Elliott V. Bell
Chairman of the Executive Committee
McGraw-Hill, Inc., 1962

Russell P. Bygel
Vice President, Montgomery Ward, 1958

Philip R. Clarke
Chairman of the Executive Committee
Montgomery Ward, 1942

Fairfax M. Cone
Chairman of the Executive Committee
Foote, Cone & Belding Advertising Agency, 1962

Edward S. Donnell
Vice President, Montgomery Ward, 1963

Donald M. Graham
Vice Chairman of the Board of Directors
Continental Illinois National Bank and
Trust Company of Chicago, 1962

Edward Gudeman
Partner, Lehman Brothers, 1963

Charles J. Kushell, Jr.
Vice President, Montgomery Ward, 1957

Lenox R. Lohr
President, Museum of Science
and Industry of Chicago, 1956

Ernest S. Marsh
President, The Atchison, Topeka and
Santa Fe Railway Company, 1959

Robert L. Milligan
President, The Pure Oil Company, 1959

James J. Nance
Chairman, Central National Bank of
Cleveland, 1962

Charles W. Wood
Vice President, Montgomery Ward, 1962

* *Date indicates year elected Director*

TRANSFER AGENTS

The Northern Trust Company,
Chicago, Illinois
Morgan Guaranty Trust Company of New York,
New York, N.Y.

REGISTRARS

The First National Bank of Chicago,
Chicago, Illinois
Bankers Trust Company,
New York, N.Y.

GENERAL OFFICES

619 West Chicago Avenue, Chicago, Illinois 60607
Telephone: 467-2000

At catalog sales desks in every Montgomery Ward retail store, customers receive the personal attention of experienced sales clerks in selecting apparel, home furnishings, appliances, radios and other items. Many phone in their orders and later pick them up to take advantage of the maximum savings offered by the nation's original catalog merchandiser. When customers don't find the exact color, design or type of article they want in the retail store, they can conveniently choose the right item from the 130,000 featured in Montgomery Ward seasonal and sales catalogs at each store's catalog desk.


MONTGOMERY WARD